

Agenda



Audit Committee

Date	Wednesday, 14 November 2012 at 7:00 pm
Venue	Town Hall, St Annes
Committee members	Councillor John Singleton JP (Chairman) Councillor Brenda Ackers (Vice-Chairman) Councillors Ben Aitken, Christine Akeroyd, Leonard Davies, Kath Harper, Howard Henshaw, Linda Nulty, Louis Rigby

Item		Page(s)
1	Declarations of Interest: Any member needing advice on Declarations of Interest should contact the Monitoring Officer before the meeting.	1
2	Confirmation of Minutes: To confirm the minutes of the previous meeting held on 20 September 2012 as a correct record.	1
3	Substitute Members: Details of any substitute members notified in accordance with council procedure rule 24.3.	1
4	Annual Audit Letter 2011-12	3 - 12
5	Mid Year Prudential Indicators and Treasury Management Monitoring Report 2012/13	13 - 24
6	Guide/Criteria for Members Serving on Outside Bodies	25 - 48

The code of conduct for members can be found in the council's constitution at www.fylde.gov.uk/council-and-democracy/constitution

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REPORT



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	14 NOVEMBER 2012	4

ANNUAL AUDIT LETTER – 2011/12

Public Item

This item is for consideration in the public part of the meeting.

Summary

To consider the contents of the Annual Audit letter issued by the Council's external Auditors, KPMG for the financial year 2011/12. The audit letter details the auditor's opinion on performance and financial management. The opinion of KPMG is also provided on the council's preparation of its financial statements. The report will be presented by KPMG.

Recommendation

That the Audit Committee are asked to note the content of the audit letter and are invited to make comments for referral to, and consideration by, the Cabinet.

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance and Resources: Councillor Karen Buckley

Report

1. The Annual Audit letter is produced each year by the Council's external auditors and the judgements contained within it are based on inspection activity which has been undertaken during the year 2012/13 in relation to the 2011/12 accounts.
2. Detailed commentary is also provided within the letter about the external auditor's opinion on the Council's financial statements, including its accounts and compliance with International Financial Reporting Standards.

Continued....

3. A copy of the Annual Audit Letter for 2011/12 is attached.

IMPLICATIONS	
Finance	Implications are detailed within the body of the Letter.
Legal	Implications are detailed within the body of the Letter.
Community Safety	None arising directly from the report.
Human Rights and Equalities	None arising directly from the report.
Sustainability	None arising directly from the report.
Health & Safety and Risk Management	None arising directly from the report.

Report Author	Tel	Date	Doc ID
Paul O'Donoghue	01253 658566	19 th October 2012	

List of Background Papers		
Name of document	Date	Where available for inspection
As attached		Town Hall or www.fylde.gov.uk

Attached documents

1. Annual Audit Letter 2011/12



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Annual Audit Letter 2011/12

Fylde Borough Council

October 2012

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2. Summary of reports issued	5
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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This report summarises the key findings from our 2011/12 audit of Fylde Borough Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our work covers the audit of the Authority's 2011/12 financial statements and the 2011/12 VFM conclusion.

VFM conclusion	<p>We issued an unqualified value for money ('VFM') conclusion for 2011/12 on 28 September 2012</p> <p>This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
Audit opinion	<p>We issued an unqualified opinion on your financial statements on 28 September 2012. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
Financial statements audit	<p>As a result of our audit work, we identified two audit issues which have been communicated to management. One issue was medium priority and one issue was low priority. These are:-</p> <ul style="list-style-type: none"> ▪ Medium Priority - Revaluations of Heritage Assets have not been performed for several years. This did not result in any amendment to the financial statements but a recommendation has been made which is included on page 4. ▪ Low Priority - There was an error in the Pension Data submitted to Mercers Pensions Actuary. This did not result in any amendment to the financial statements but a recommendation has been raised.
Annual Governance Statement	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>
Whole of Government Accounts	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements. One difference was identified with the Pension disclosure in relation to the weighted long term return on assets disclosure (as a percentage) but this did not have a material impact the Authority's pack.</p>

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

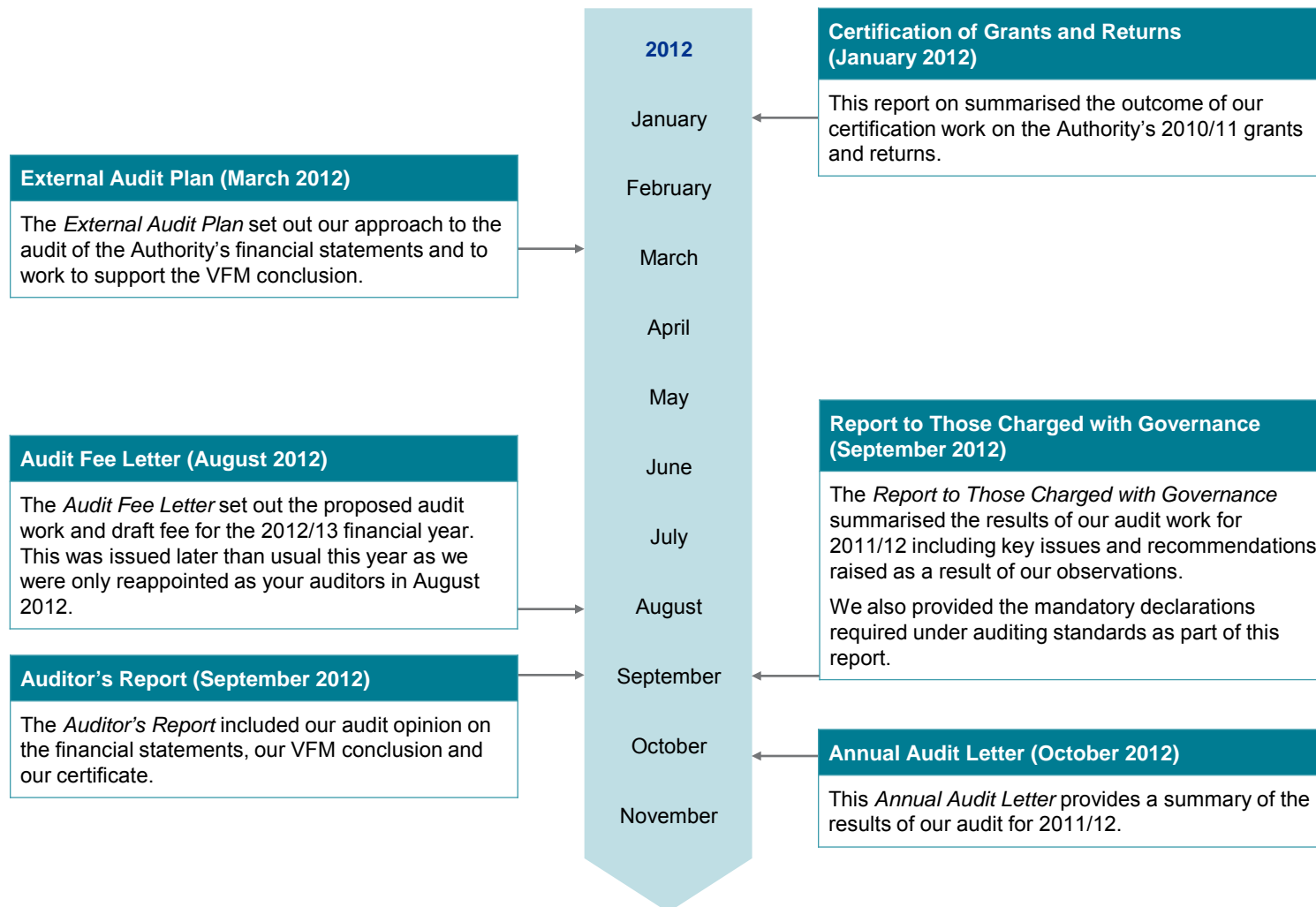
High priority recommendations	No high priority recommendations were raised from our audit work. Medium and low priority recommendations have been outlined on page 2.
Certificate	We issued our certificate on 28 September 2012. This certificate confirms that we have concluded the audit for 2011/12 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
Audit fee	Our fee for 2011/12 was £104,500 excluding VAT. Further detail is contained in Appendix 3.

This appendix summarises the high/medium priority recommendations that we identified during our 2011/12 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

No.	Issue and recommendation	Management response/ responsible officer/ due date
1	<p>Heritage Assets Valuations</p> <p>The Authority last performed a revaluation of its Art Collection, Sculptures and Ivories in 2003 and of its Trophies, Civic Regalia and other items in 1994. Management have confirmed that a revaluation of Heritage Assets will be performed in 2012/13 to bring these valuations up to date.</p> <p>However, the Authority's current stated policy is that going forward revaluations of Heritage Assets should be performed on a 10-yearly basis. In our view, and given the current volatility of the market, this policy may not be appropriate. It exposes the Authority to risk given that the amount it can claim in any insurance claims for loss of or damage to these assets is based on the most recent valuation.</p> <p>Management needs to reassess the proposed period between revaluations to balance the risk of financial loss in the event of damage or loss of assets against the cost of performing the revaluation to the taxpayer.</p>	<p>The Council has committed to carry out a full revaluation of all Heritage Assets in 2012/13. Furthermore, in consultation with professional valuers and the Council's insurers, the current policy on the frequency of valuations of Heritage Assets will be reviewed and the policy will be amended if required following the review.</p> <p>Chief Financial Officer</p> <p>March 2013</p>

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



This appendix provides information on our final fees for 2011/12.

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the outturn against the 2011/12 planned external audit fee.

External audit

Our final fee for the 2011/12 audit of the Authority was £104,500. This is an overall reduction of 7.5 percent on the comparative total fee for 2010/11 of £110,000.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2011/12* which we are due to issue in January 2013.



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REPORT



REPORT OF	MEETING	DATE	ITEM NO
FINANCE	AUDIT COMMITTEE	14 NOVEMBER 2012	5

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2012/13

Public Item

This item is for consideration in the public part of the meeting.

Summary

This report is a mid year review of Treasury Strategy and Prudential Indicators for Audit Committee to scrutinise in line with the recommendations of CIPFA (Chartered Institute of Public Finance Accountants) Code of Practice on Treasury Management 2011.

Recommendation

Recommendations

1. The Audit Committee is recommended to scrutinise the Mid Year Prudential Indicators and Treasury Management Monitoring Report and recommend the following changes to Council:-

- i) That the revised Prudential Indicators and Limits be approved

Reasons for recommendation

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011 requires Members to receive a Mid Year Treasury Review report and scrutinise the strategy and Prudential Indicators. As changes arise during the year some of the Prudential Indicators and Limits need to be revised.

Alternative options considered and rejected

No alternative options exist.

Cabinet Portfolio

The item falls within the following Cabinet portfolio: Finance and Resources – Councillor Karen Buckley.

Report

1. Introduction

The Code of Practice on Treasury Management requires the Council to receive a **Mid Year Treasury Review** report, in addition to the forward looking Annual Treasury Strategy and backward looking Annual Treasury Report.

The Mid Year Treasury Review report has been prepared in compliance with the Code of Practice. The Code of Practice requires Members to receive reports and scrutinise the Treasury Management service.

In order to assist with the terminology and explanations included within the report, Appendix A sets out a Glossary of Treasury Terms and a number of Treasury Management and Prudential Indicators Frequently Asked Questions.

2. Economic Update

2.1 Economic Background

The Bank of England has reported that the UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and that ongoing turbulence in that area will inevitably affect the UK's economic performance. Therefore, the Bank of England has substantially lowered its expectations for the rate of growth in the UK economy.

Investor confidence in the Eurozone area remains weak with successive “rescue packages” followed by disappointment in the money markets expectations. The uncertainty created by the continuing Eurozone debt crisis is having a major effect in undermining business and consumer confidence in Europe, UK, America and the Far East.

In the UK consumer confidence remained low due to unemployment concerns, high inflation and low pay rises.

2.2 Economic Outlook for 2012/13

Eurozone growth will remain weak as austerity programmes in various countries curtail economic recovery. Greece may require a third bail out and the financial crisis in Spain is also rapidly escalating although this may be eased by the latest decision not to down grade the Spanish credit rating further.

UK growth is expected to be low with the bank base rate unlikely to rise in the next two years, and possibly further quantitative easing. This will keep investment returns low.

2.3 Interest Rate Forecast

The interest rate forecast is provided by the Council's Treasury Advisors Sector.

Table 1 Sector Interest Rate Forecast

Quarter Ending	Bank Rate %	Investment Rates		Borrowing Rates (PWLB*)		
		3 month %	1 year %	5 year %	25 year %	50 year %
Actual 30.09.12	0.50	0.60	1.34	1.68	3.94	4.14
Dec 2012	0.50	0.60	1.30	1.50	3.70	3.90
March 2013	0.50	0.60	1.30	1.50	3.70	3.90
June 2013	0.50	0.60	1.30	1.50	3.70	3.90
Sept 2013	0.50	0.60	1.40	1.60	3.80	4.00
Dec 2013	0.50	0.60	1.50	1.70	3.80	4.00
March 2014	0.50	0.60	1.70	1.80	3.90	4.10
June 2014	0.50	0.70	1.90	1.90	4.00	4.20
Sept 2014	0.50	0.90	2.10	2.00	4.10	4.30
Dec 2014	0.75	1.10	2.30	2.10	4.20	4.40
March 2015	1.00	1.40	2.60	2.30	4.30	4.50

* PWLB – Public Work Loans Board

Key risks to the interest rate forecast are:-

- Sector's forecast assumes that UK growth starts to recover in the next three years. However, if the Eurozone debt crisis worsens, or low growth in the UK continues longer, then the Bank Base Rate will be low for even longer.
- In September 2012 borrowing rates rose after the ECB (European Central Bank) announced that it would buy unlimited amounts of bonds of Eurozone countries who have formally agreed the terms for a bailout. Sector consider that borrowing rates are likely to reduce in the quarter to December 2012 after this initial increase. The longer term trend for borrowing rates is for rates to eventually rise.

3. Treasury Management Strategy Statement

The Treasury Management Strategy Statement for 2012/13 was approved by the Council on 1st March 2012. There are no policy changes to the Treasury Management Strategy Statement and the details in this report update the position in light of the updated capital programme, budget changes, and economic position.

4. Key Prudential Indicators

The Prudential Indicators were originally approved by Council on 1st March 2012. As changes arise during the year some of the Prudential Indicators and Limits need

to be revised. The Prudential Indicators in this report will be taken to Council for approval on 3rd December 2012. The current position for figures in the report reflects the treasury activity up to 30th September 2012.

4.1 Capital Expenditure

Table 2 shows the revised forecast capital expenditure as reported in the Quarter 2 Capital Programme Update as compared to the capital expenditure originally approved by Council.

Table 2 Forecast Capital Expenditure

Forecast Capital Expenditure	2012/13 Original Indicator £M	2012/13 Latest Estimate £M
Total	6.0	6.5

The above table shows the forecast capital expenditure on new projects. The latest estimate of capital expenditure includes approved slippage of £322K from 2011/12 which was predominantly replacement vehicles and the addition of fully funded capital schemes in respect of Granny's Bay, Fairhaven Lake Drainage and Waddington playing field.

4.2 Capital Financing Requirement (CFR)

Table 3 shows the CFR which is the total of all of the Council's capital assets (existing and planned) less all of the Council's capital reserves. This is the amount of capital expenditure that the Council has still to finance and represents the Council's underlying need to borrow. The CFR is normally funded by external borrowing. The Council has borrowed £3.8M (see section 5.1), and there is a requirement to finance a further £4.7M.

Table 3 Capital Financing Requirement (CFR)

	2012/13 Original Indicator £M	2012/13 Revised Indicator £M
Total CFR	8.3	8.5

The CFR has been increased by £0.2M as the budget for the Minimum Revenue Provision (MRP) has been revised to reflect the latest position on the capital programme and the annual payment for 2012/13 will be lower than originally forecast.

4.3 Operational Boundary & Authorised Limit

A further two Prudential Indicators control the overall level of borrowing. These are:

- The Authorised Limit for External Debt
- The Operational Boundary for External Debt

The Authorised Limit for External Debt is a further key Prudential Indicator that controls the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

The expected maximum debt position during each year represents the Operational Boundary Prudential Indicator, and so may be different from the year end position.

The changes to these limits are shown in Table 4.

Table 4 Operational Boundary & Authorised Limit for External Debt

	2012/13 Original Indicator £M	2012/13 Revised Indicator £M	Note
Existing Capital Borrowing	3.8	3.8	1
Additional Capital Borrowing Requirement	4.5	4.7	
Gross Borrowing Indicator	8.3	8.5	see Table 3
Operational Boundary	8.3	8.5	
Contingency	6.5	6.5	2
Authorised Limit	14.8	15.0	

Note

1. The Gross Borrowing indicator has increased as set out in paragraph 4.2.

2. The Authorised Limit includes £6.5M for 'contingency' which is an amount that has been estimated to provide scope to undertake short-term borrowing in the event of a service delivery failure or emergency, eg. failure to collect council tax income.

4.4 Net Borrowing

The Council needs to ensure that its total debt, net of any investments does not, except in the short term, exceed the CFR. Table 5 below shows that the Council will be able to comply with this requirement.

There are no difficulties anticipated in keeping the long term capital borrowing below the CFR. Revenue borrowing may be incurred for short periods in line with cash flow requirements.

Table 5 Net Borrowing

	2012/13 Original Indicator £M	2012/13 Revised Indicator £M
Gross Borrowing Indicator	8.3	8.5
Investments (over 365 days)	<u>(0)</u>	<u>(0)</u>

Net Borrowing Indicator	<u>8.3</u>	<u>8.5</u>
Capital Financing Requirement	8.3	8.5

5. Treasury Strategy 2012/13

5.1 Borrowing Strategy Update 2012/13

The Council currently has long-term debt of £3.8M at an average rate of 2.856%.

The Council has a requirement to borrow a further £4.7M in 2012/13 (£8.5M CFR less £3.8M already borrowed) based on Prudential Borrowing that has been approved as part of the Capital Programme. The CFR of £8.5M (See Table 3) includes this Prudential borrowing, and the cost of borrowing has already been included within the approved revenue budgets.

No new long term borrowing has been undertaken so far in 2012/13. The Council's Treasury Advisors (Sector) continue to recommend that based on the latest economic forecasts the Council should fund any new long term capital expenditure from cash balances held internally. This is known as 'internal borrowing'. This will reduce borrowing costs and lower credit risk by reducing the level of investments but is unlikely to be sustainable in the medium to long term.

In August 2012, HM Treasury introduced a new PWLB (Public Work Loans Board) borrowing rate, known as the "certainty rate". This new borrowing rate is set as 0.20% below the standard PWLB borrowing rate and is available to Council's who submit a return to HM Treasury about the Council's latest capital and borrowing plans. The Council completed this return and the Council will therefore have access to PWLB borrowing reduced by 0.20% when external borrowing is required.

5.2 Investment Strategy Update 2012/13

The Investment Strategy for 2012/13 was approved by Council on 1st March 2012. There are no changes to the Investment Strategy. There were no breaches of the approved limits within the Investment Strategy during the first six months of 2012/13.

In accordance with the Code of Practice on Treasury Management, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term investment strategy. Given this risk environment, investment returns are likely to remain low.

The Council held £9.9M of short-term investments as at 30th September 2012. These investments represent the Council's surplus cash flow at the mid year point. The cash flow will deteriorate during the remainder of the financial year and the amount of cash invested on 31st March 2013 is forecast to be minimal.

The Council's budgeted investment return for 2012/13 is £0.045m, and performance for the first half of the year is in line with the revised budget.

6. Treasury Indicators

6.1 Limits on Interest Rate Exposure

There are treasury Prudential Indicators whose purpose is to manage risk and reduce the impact of an adverse movement in interest rates. The indicators are:

- Upper limits on fixed rate debt (Table 6) – this limit reflects the fact that the Council may wish to have all its borrowings at fixed rates
- Upper limits on variable rate debt (Table 6) – This limit reflects the potential need to take some variable rate debt if interest rates rise to a point where fixed rate borrowing is not attractive.

The indicators relating to debt have been revised in Table 6 in line with the changes to the Operational Boundary detailed in Section 4.3.

Table 6 Interest Rate Exposures

	2012/13 Original Indicator £M	2012/13 Revised Indicator £M
Limits on fixed rate debt	8.3	8.5
Limit on variable rate debt (50% of total debt)	4.15	4.25

6.2 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the financing cost (interest payable less interest receivable) as a percentage of the net revenue stream as shown in Table 7.

Table 7 Ratio of Financing Costs to Net Revenue Stream

	2012/13 Original Indicator	2012/13 Revised Indicator
Ratio	9.1%	5.6%

The ratio of financing costs has decreased. This is due to savings from the interest payable budget as a result of the 'internal borrowing' strategy, i.e. new external borrowing has been delayed. It is also due to investment income for the first half of the year exceeding the original budget due to higher than anticipated cash balances. Cash balances are higher as a result of the delayed handover of monies in respect of Section 106 monies, the Local Authority Mortgage Scheme, and Capital Programme expenditure being incurred in the latter half of 2012/13.

7. Impact Statement

7.1 Sound financial advice and assistance is vital to deliver the Council's priorities.

8. Risk Assessment

- 8.1 If the revised Prudential Indicators and Limits are not scrutinised and recommended by Audit Committee to Council, the Council will be at risk of not having adequate liquidity or funding for the Council's capital plans.
- 8.2 Also, the Council will not be complying with the Council's approved treasury management practices as detailed in the Council Constitution or CIPFA's Code of Practice on Treasury Management.

9. Conclusion

There remains huge uncertainty in economic forecasts and investment returns are expected to remain very low for some time. Long term borrowing rates are forecast to increase gradually from July 2013 in advance of base rates increasing in October 2014 (see Table 1). The Council will continue to monitor rates closely and will undertake new external borrowing in line with cash flow requirements and the interest rate forecast.

Report Author	Tel	Date	Doc ID
Paul O'Donoghue (Chief Finance Officer)	(01253) 658566	November 2012	

List of Background Papers		
Name of document	Date	Where available for inspection
Medium Term Financial Strategy Update Including General Fund, Capital Programme & Treasury Management for 2011/12 – 2015/16	01.03.12	Minutes of Council Meeting 01/03/12
Capital Programme 2nd Quarter Update 2012/13	30.09.12	Accountancy Services Town Hall
Sector Interest Forecasts	September 2012	Accountancy Services Town Hall

Attached documents

Appendix A – Glossary of Treasury Terms and Treasury Management and Prudential Indicators Frequently Asked Questions

IMPLICATIONS	
Finance	Contained within the body of the report

Legal	N/A
Community Safety	N/A
Human Rights and Equalities	N/A
Sustainability and Environmental Impact	N/A
Health & Safety and Risk Management	N/A

Glossary of Treasury Terms

Term	Description
Counterparty	Another party to an agreement.
Credit rating	A measure of the credit worthiness of an institution, corporation, or a country. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells a lender or investor the probability of the counterparty being able to pay back a loan.
Liquidity	As assessment of how readily available an investment is. It is safer to invest in liquid assets because it is easier for an investor to get their money out of the investment.
Minimum Revenue Provision (MRP)	The minimum amount that the Council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.
Public Works Loan Board (PWLb)	PWLb is part of HM Treasury and lends money to local authorities.
Security	As assessment of the creditworthiness of a counterparty.
Treasury adviser	External consultancy firms that provide information to local authorities, including information regarding counterparty creditworthiness.

Treasury Management and Prudential Indicators Frequently Asked Questions

1. What is the difference between capital expenditure and capital financing requirement?

The Capital Expenditure is the forecast expenditure on new capital projects in line with the Capital Programme. It excludes all of the Council's existing capital assets, e.g. Land, buildings, vehicles etc.

The Capital Financing Requirement (CFR) is the Council's capital assets (existing and planned) less all of the Councils' capital and revenue resources which have been applied to pay for it. This is the amount of capital expenditure that the Council has to charge to revenue or to finance through other resources. The CFR is normally funded by external borrowing.

2. What does the term 'financing' mean?

The term 'financing' does not refer to the payment of cash but the resources that will be applied to ensure that the capital payment amount is dealt with over the longer term. A number of financing options are available to Councils:-

- capital receipts (eg. sale of land or buildings)
- contribution from revenue expenditure
- capital grant
- contribution from a third party
- borrowing

3. Does the Council link long term loans to particular capital assets/projects?

The Council does not associate loans with particular capital assets/projects, as it is not best practice. The Council will, at any point in time, have a number of cashflows both positive and negative and will be managing its position in terms of its borrowings and investments in accordance with its treasury management strategy and practices. This is best practice in line with the CIPFA Prudential Code.

4. What does the term 'net borrowing should not exceed the total of the CFR' mean?

The CFR determines the amount that the Council needs to borrow for a capital purpose. Net borrowing will remain below the CFR to ensure that the Council is only borrowing for a capital purpose. The Council is permitted to borrow in advance for a capital purpose over the medium term. The term 'total of the CFR' is the CFR of the current year plus increases in the CFR of the previous financial year and next two financial years. In other words, the total of the Council's existing assets, plus additions to assets resulting from forecast Capital Programme expenditure, e.g. vehicles. This gives the Council some headroom to borrow early for a capital purpose in order to secure low interest rates.

5. Is the cash that is being managed inhouse revenue or capital?

The short term surplus cash that is managed during the year in house may be revenue or capital, e.g. the Council may receive a capital receipt in April but capital expenditure is incurred throughout the year which gives rise to increased cash balances in the early part of the financial year which is invested short term by the in house treasury team. The Council receives Council Tax which is classed as revenue income. Council Tax income is typically received in the months of April to January as Council Tax payers make 10 instalments. Therefore, the Council has less cash in the months of February and March and may need to borrow cash short-term in line with the cash flow forecast.

6. What does the Council invest in?

The Council is restricted in where it can invest its surplus funds. The restrictions are prescribed by statute (Local Government Act 2003 section 15(1) (a)). Councils are also required to have regard to supplementary investment guidance provided by the Communities and Local Government.

The Council's investments are typically short term, i.e. less than a year, and are made in sterling with institutions with high credit ratings.

7. What is the role of internal and external auditors in respect of treasury management?

The focus of external auditors work is a Council's annual accounts and the financial management systems and processes that underpin them. The external audit will enquire as to whether the Treasury Management Code has been adopted and whether its principles and recommendations have been implemented and adhered to. External auditors cannot comment or advise on authority's treasury management strategy or policies

Through a process of review, the role of Internal Audit is to provide an opinion of the adequacy, application and reliability of the key internal controls put in place by management to ensure that the identified risks are sufficiently mitigated. This will assist Treasury Management in meeting its desired objectives and help to ensure that the risk of fraud and/or error is minimised. Internal Audit will also look to identify other areas of potential risk which could usefully be included as well as any inefficiencies in existing processes and procedures where improvements can be made.

8. What are the qualifications of Council staff involved in treasury management practices?

Staff are either working towards or have achieved professional accountancy qualifications from CIPFA (Chartered Institute of Public Finance Accountants), ACCA (Association of Chartered Certified Accountants) or CIMA (Chartered Institute of Management Accountants). Staff work closely with Treasury Management Advisors and attend treasury training and updates provided by the Treasury Management Advisors.

REPORT



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	14 NOVEMBER 2012	6

GUIDE/CRITERIA FOR MEMBERS SERVING ON OUTSIDE BODIES

Public/Exempt item

This item is for consideration in the public part of the meeting

Summary

At its most recent meeting, the committee considered a draft Guidance/Protocol for members serving on outside bodies. The committee deferred making a decision to approve and commend the document for inclusion in the constitution pending further information on some issues raised at the meeting.

The report examines those issues and recommends changes to the draft Guidance/Protocol to (1) add the requirement of skills, experience and knowledge of the work of an outside body to the core competencies for appointments to outside bodies, and (2) add additional guidance on conflicts between the interests of the council and those of a company to which the council is invited to nominate a director.

Recommendation/s

1. Approve the Protocol for Members Serving on Outside Bodies and commend the same to Council for approval as a formal procedure to be included within the council's constitution, subject to the changes to the draft set out in 8 and 18 of the report.

Cabinet portfolio

The item falls within the following cabinet portfolio[s]: Finance and resources: (Councillor Karen Buckley).

Continued....

Report

Background

1. At its last meeting, the committee considered a draft document entitled “Guidance/Protocol for Members Serving on Outside Bodies”. The document set out core competencies for such members, listed the outside bodies on which members currently serve, provided guidance for councillors serving on the different kinds of bodies and appended forms for use in nominations to outside bodies and reporting back from them. Elements of the draft document drew significantly on work carried out by the Member Development Steering Group.
2. The covering report recommended that the committee approve the document and commend it to Council for approval as a formal procedure to be included within the Constitution. However, members instead deferred consideration pending clarification of some matters that arose during the committee’s discussion of the document.
3. The matters raised for clarification were: (1) whether the core competencies for members serving on outside bodies should incorporate a requirement that a member appointed should have experience or interest and skills that make them suitable for the role; and (2) the appropriateness of the guidance in the document that members appointed as directors of a limited company should act in the best interests of the company rather than of the council. This report addresses each of these matters in turn.

Core competencies

4. The application form on which, should the Guidance/Protocol be adopted as presently drafted, members would express their interest in serving on an outside body, includes the following two questions: “*What experience and/ or interest in this subject makes you suitable for the role?*” and “*What skills will you use in the role?*”. However, the suggested core competencies do not include corresponding competencies.
5. It may be useful to recap the purpose of these two elements of the Guidance/Protocol.
6. The application form is intended to help a structured and informed debate to take place on a controversial appointment or re-appointment of a representative on an outside body. It would not be appropriate or constitutional for the council to be bound to require an application form before a member is appointed as a representative. But the adoption of the standard form would allow a meeting to discuss and debate a proposed appointment on the basis of information given (or not given) in the application form.
7. The core competencies for appointees on outside bodies are (like the other sets of core competencies that the committee has considered) intended to form the backbone of the member development process. The process encourages members to identify areas of their roles where they consider that they could be helped to be more effective and provides training and development in those areas, where practicable. The core competencies are effectively checklists of skills and areas of knowledge in various councillor roles, which can help members to identify their development needs.
8. While the application form and the core competencies are not necessarily addressed to the same purpose, there is clearly merit in better aligning them by including competencies about the experience, interest and skills required by a particular outside

appointment. The following changes to the proposed core competencies for members serving on outside bodies are therefore suggested:

- Add the following competency: *“Has the skills needed to properly fulfil his or her role in the outside body”*; and
- Change the competency, *“Understands the purpose of the outside body”* to *“Has an understanding, underpinned by appropriate experience or knowledge, of the purpose and work of the outside body”*.

Role of directors

9. The draft Guidance/Protocol included guidance for members appointed as directors of limited companies. The guidance included that directors *“must...act in good faith in what they believe to be in the best interests of the company (not the Council)”* and must *“avoid placing themselves in a position where their private interests or their position as a councillor conflict with their duties to the company”*.
10. The guidance on serving on quasi-statutory bodies included the following: *“It is necessary to ensure that the councillor’s role on the body is clear, and, in particular, whether they are acting as a delegate or representative of the Council to further the interests of the Council, or whether they are expected to exercise independent judgment in the best interests of the body concerned”*.
11. Some members of the committee considered that the two quotations from the draft guidance set out in paragraph 9 above were contradictory. It was also suggested that the guidance quoted in paragraph 10 above ought to extend to councillors serving as company directors as well.
12. The guidance on the role of members as directors¹ is intended to reflect the legal position. The current law on the general duties of directors is in sections 170-178 of the Companies Act 2006 and the parts relevant to the issues raised are summarised below. The summary is taken from a factsheet published by the Association of Chartered Certified Accountants. I consider the factsheet to be an accurate summary of the legal position.
 - **The general duties mean a director must act in the interests of the company and not in the interests of any other parties – including shareholders:** The company comes first. Understanding this principle should make it easier for you to decide how to act when there are a number of interested parties with apparently conflicting interests. This applies even for ‘one man’ companies, which means a sole shareholder or director may not put their interests above that of the company.

[...]

- **Duty to promote the success of the company:** The term ‘success’ is not defined in the Act because this may vary from company to company. In most cases,

¹ The position with the Lowther trust is different. The Council as a corporate body is a trustee and must comply with the duties of a trustee, including acting only for the purposes of the trust. Because the council as a corporate body cannot attend meetings of the trustees, it must send a representative. The portfolio-holder is the council’s representative. In that capacity, she does not have any obligation to exercise independent judgment analogous to that of the director of a company.

however, it is likely to mean sustainable profitability. The underlying principle here is that every director has a legal duty to try and act in such a way which, in their judgement, is most likely to bring 'success' to the company.

[...]

- **Duty to avoid conflicts of interest:** You must avoid any situations where you have any personal or outside interests which will potentially come into conflict with the interests of the company. This duty even extends to former directors. However, this duty is not infringed if the situation cannot reasonably be regarded as likely to give rise to a conflict; or the matter has been authorised by the directors, as appropriate to the type of company.

13. The duties are mandatory. The council cannot waive them. Any guidance the council issues to members about accepting directorships should therefore include reference to them. The next few paragraphs explore how likely it is that the duties may conflict.
14. Where a councillor is a director of a company of which the council is the only shareholder², a conflict is unlikely to arise. The interests of the council will normally coincide with the interests of the company.
15. Where a councillor is a director of a company in which the council is one of a number of shareholders, the possibility of a conflict will increase to the extent that the company has different shareholders and to the extent to which the interests of those other owners do not coincide with those of the council. In such a situation, the duty of the director is to act in the interests of the company, not the council.
16. Where a councillor is a director of a company in which the council does not hold any shares, and a conflict arises between the interests of the council and those of the company, the duty of the director is to act in the interests of the company, not the council.
17. The duty to avoid conflicts of interests, the possibility of a conflict between the interest of the council and those of a company to which a councillor is nominated as a director, and how such conflicts should be dealt with, are matters of legitimate concern. It would be appropriate for the Protocol/Guidance document to include more specific guidance on these matters.
18. It is suggested that the draft Guidance/Protocol be amended by adding the following wording as paragraphs 4 and 5 of the guidance for Councillors appointed as Directors of Limited Liability Companies:
 - The council should not nominate a councillor for appointment as a director of a company where there is a realistic possibility that the interests of the company may come into conflict with those of the council and, in the event of such a conflict, the council would expect or require the nominee to act in the interests of the council rather than the company;
 - A councillor should not accept nomination to be a director of a company where there is a realistic possibility that the interests of the company may conflict with

² The council does not presently own shares in any company.

those of the council and the councillor would not feel able, in those circumstances, to act in the interest of the company rather than the council.

19. Given that the law is clear that councillors serving as directors of companies do not do so as delegates or representatives of the council to further the interest of the council, but are expected to exercise independent judgment in the best interests of the company, it would not be appropriate to extend the guidance in the draft Protocol for members on serving on quasi-statutory bodies (set out in paragraph 10 above) to include members serving as company directors.

IMPLICATIONS	
Finance	No financial implications
Legal	Addressed in the report
Community Safety	No implications
Human Rights and Equalities	None
Sustainability	None
Health & Safety and Risk Management	None

REPORT AUTHOR	TEL	DATE	DOC ID
Ian Curtis	(01253) 658506	30 October 2012	

LIST OF BACKGROUND PAPERS		
NAME OF DOCUMENT	DATE	WHERE AVAILABLE FOR INSPECTION
A Guide to Directors' Duties and Responsibilities	Accessed 30 October 2012	www2.accaglobal.com/documents/Directors_Duties.pdf
Draft Guidance/Protocol for Members Serving on Outside Bodies	August 2012	Town Hall, St Annes

Attached documents

Draft Guidance/Protocol for Members Serving on Outside Bodies

**GUIDANCE / PROTOCOL
FOR
MEMBERS SERVING ON OUTSIDE BODIES**

This guidance/protocol is broken down into the following elements:

1. Schedule of appointments colour coded against the type of appointment made, for example, councillors appointed as Directors, Trustees or to act as advisors on unincorporated associations
2. Guidance for councillors serving on outside bodies based on the type of appointment
3. Reporting form to be completed by every member serving on an outside body every six months, with all completed information being circulated to all members of the Council for information. Those members failing to complete the information following a second reminder will be brought to the attention of Group Leaders. Group Leaders must then determine whether they wish to request a Notice of Motion at the next Council meeting as to whether the subject member should continue to represent the Council on the particular outside body
4. Application form for members wishing to submit a challenge to an appointment to an outside body. All appointments are determined at the next ordinary Council following the AGM, except in an election year where appointments are considered to the AGM. The intention is that two months prior to this date that all councillors will be reminded of their opportunity to submit an application for consideration by the Council in none election years.
5. Core competencies for elected members serving on outside bodies are set out below.

Core competencies for members serving on outside bodies

1. Is generally available to attend meetings of the outside body
2. Attends all meetings where circumstances permit
3. Understands the purpose of the outside body
4. Understands their role as the council's representative, including the need to represent the council as a whole
5. Uses their role on the outside body to champion the interests of the people of Fylde, insofar as this is consistent with any other duty
6. Regularly reports on their work with the outside body to all members of the Council
7. Knows the procedure for dealing with conflicts between their own interests, those of the Council and those of the outside body
8. Has appropriate understanding of any regulatory framework that affects the outside body

9. Informs the Council Leader if they are unable to continue to fulfil the competencies

Outside bodies/partnerships attended by elected members	Previous representation
Blackpool Airport Consultative Committee (1 seat)	Planning and Development Portfolio Holder
Warton Local Consultative Committee (1 seat)	Councillor Threlfall
Fylde Citizens Advice Bureau (3 seats)	Cllrs Ackers, Hardy and Nulty
Lancashire Waste Partnership (1 seat)	Portfolio Holder for Customer and Operational Services
Local Liaison Committee Springfield Works (2 seats)	Cllrs Collins and Threlfall
LSP Executive (1 seat)	Leader
Lytham Town Trust (1 seat)	Councillor Ashton
Progress Housing (1 seat)	Councillor Willder

North West Employers Organisation (1 seat)	Portfolio Holder for Customer and Operational Services
Face to Face (1 seat)	Councillor Singleton
Age Concern – Fylde (1 seat) (N.B. Should be Age UK Lancashire)	Portfolio Holder for Social Wellbeing
Local Strategic Partnership (LSP) Communities and Environment Group	Portfolio Holder for Environment and Partnerships and Councillor David Chedd (as shadow Spokesperson)
LSP Community Safety Partnership Children's Trust LSP Health and Well Being Group	Portfolio Holder for Social Wellbeing and Councillor Tony Ford (opposition spokesperson) Portfolio Holder for Finance and Resources and Councillor Nulty (opposition spokesperson) Portfolio Holder for Social Wellbeing and VACANY (opposition spokesperson)
LSP Economic Development Group	Planning and Development Portfolio Holder and Councillor Elaine Silverwood (opposition spokesperson)
BFW Volunteering Centre (1 seat)	Councillor Jaques
Council for Voluntary Services, BWF (1 seat)	Councillor L Davies
Fylde Arts Association - Executive Committee (3 seats)	Cllrs Jacques / Henshaw / Harper
Fylde Community Projects Fund (1 seat)	The Mayor

Kirkham Baths Management Committee (1 seat)	Portfolio Holder for Leisure and Culture
LCC Adult Social Care & Health Overview and Scrutiny Committee	Councillor Ackers
Ormerod Trust (1 seat)	Councillor Jacques
Three Tier Forum	Councillors Chedd, Duffy, Eaves, Fazackerley, Goodrich and Redcliffe
Lancashire Health and Wellbeing Board	Portfolio Holder for Social Well-Being
Fylde and Wyre Health and Well-Being Partnership	Councillor Cheryl Little
North West of England and the Isle of Man Reserve Forces and Cadets Association	Councillor E Nash
Police and Crime Commissioner Panel	Councillors Eaves and Oades
<p>Green means a limited company</p> <p>Turquoise means an unincorporated association</p> <p>Pink means a limited company that is also a registered charity</p> <p>Grey means a statutory body</p>	

1.	
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Guidance for members serving on outside bodies
Councilors appointed as Directors of Limited Liability Companies

Legal Status

1. Upon incorporation a company becomes a separate legal entity, which can hold property in its own right, enter into contracts and sue and be sued in its own name.
2. Companies limited by shares are those which have a share capital e.g. 1000 shares of £1 each. Each member holds shares and receives a share in the profits made by the company in the form of a dividend. Shares can be sold. Liability in the event of a winding-up is limited to any amount unpaid on the shares held.
3. Companies limited by guarantee do not have shares. Instead, each member agrees that in the event of the company being wound up they will agree to pay an agreed amount e.g. £1. This is most common in the public and voluntary sector, particularly where charitable status is sought.

Directors' Duties

4. The role of a councilor who has been appointed as a director will depend upon the company's constitution. A company's constitution will vest most of its powers in the board of directors and the board will exercise these either directly or through managers appointed by the board. Directors must understand the requirements of the Company's constitution and the law in order to fulfill their responsibilities properly.
5. Directors will need to be aware of the requirements of the UK Corporate Governance Code published by the Financial Reporting Council to the extent that this has been adopted by the company, including general management of the company, rules on directors' remuneration, internal financial and operational controls and risk management.
6. Directors, must:
 - act in good faith in what they believe to be in the best interests of the company (not the Council);
 - act with reasonable care, diligence and skill;
 - exercise their powers reasonably and for the purpose for which they are given;
 - keep an open mind when making decisions on company business, in particular a councilor director must exercise independent judgment and not simply follow Council policy when voting on company matters;

- avoid placing themselves in a position where their private interests or their position as a councillor conflict with their duties to the company;
 - be aware of the company's financial position through attendance at board meetings and reading the accounts, agendas and minutes, it is not sufficient to assume that the other directors are doing a good job.
7. Some directors may be given special responsibilities under the company's constitution, for instance a managing director or finance director. Those with special roles will be expected to have the personal and technical skills to perform the duties associated with that role, which may be onerous.
8. The above duties apply to non-executive directors as well as executive directors.
9. There are other statutory requirements which may be relevant depending on the company's business. Directors will need to be familiar with these. For example, if the company is an investment vehicle which engages in fundraising activity, financial services legislation will apply.

Observer status

10. The position of observer has no specific legal status in company or local authority law. Any person appointed as an observer should ensure that their role is clearly defined and avoid involvement in the management of the Company. If an observer acts beyond their remit and exercises real influence over the company's affairs and decision making the observer may be deemed to be a shadow director, with all the responsibilities of an ordinary director.
11. Observers and others, such as professional advisors, may be invited to attend board meetings. Generally the minutes of the meetings will note the names of observers and the fact that they are "in attendance". Persons "in attendance" have no specific legal status and in itself the phrase does not indicate any particular level of participation in the company's affairs.

Personal Liability

12. A director (or shadow director) may incur personal liability if they are in breach of their duties. This may arise where:

- the company is found, in the course of winding up, to have been trading for fraudulent purposes. If a director has acted dishonestly this is also a criminal offence;
- following liquidation, a director is found liable for wrongful trading, i.e. allowing the Company to continue to trade at a time when the director knew or ought reasonably to have known that there was no reasonable prospect that the company would avoid going into insolvent liquidation;

- the company commits a breach of the criminal law, for example, health and safety legislation;
- a director acts negligently or in breach of their duty to the company (including the duty to maintain confidential any confidential information relating to the company that comes into their possession);
- a director knowingly causes the company to act beyond the activities authorized by its constitution;
- there is a breach of trust, such as the misappropriation of company funds or property;
- a director uses their powers improperly or makes a personal profit from their position as director;
- there is a failure to comply with the requirements of companies' legislation, such as the making of returns to the Registrar of Companies.

Insurance

13. Councilors appointed as directors should find out if the company maintains appropriate insurance cover against directors' liability. If this is not in place this should be requested, but this is a matter entirely for the board and the Council cannot insist upon this. It will be necessary to ensure that the company has the resources to maintain payment of the insurance premiums.

14. Further guidance on the responsibilities of company director is available on the websites business link: www.businesslink.gov.uk/bdotg/action/layer?topicid=1073870537

Appointment of a Trustee to a Trust or Charity

Legal Status

1. The role and responsibilities of a trustee will depend, upon the provisions of the trusts governing documents of the trust and the general law relating to trusts and charities. A trusts governing document can be a trust deed or a scheme made by the charity commission.
2. It is quite common for companies to be set up by trusts with charitable objects. In this case the trustees will also be directors of the company and would have the obligations set out in Appendix C above as well as the obligations set out in this section. Councilors involved with charitable companies should ensure that they understand the capacity in which they have been appointed.

Duties

3. The role of a trustee is generally to fulfill the objects of the trust and apply the income and, if appropriate the capital of the trust in accordance with the provisions of its governing documents
4. Trustees are subject to various duties, including the duty to:
 - act for the benefit of the charity and its beneficiaries;
 - preserve the capital of the charity (unless the trust deed gives the trustees the right to spend the capital or the charity is small and the trustees have resolved to spend the capital under the Charities Act 1993)
 - make sure income is spent only on the things authorized in the governing documents;
 - invest the capital only in authorized investments, having first taken professional advice;
 - produce annual accounts;
 - act with reasonable care and skill in administering the trust, and
 - to act unanimously (unless the trust deed allows majority decisions);
 - comply with the Charities Acts and other legislation affecting the charity.

5. The Charity Commission's website – www.charitycommission.gov.uk – contains useful guidance in particular Publication CC3. - 'The Essential Trustee' which outlines the basic principles that should guide trustees when administering their charity:
- the income and property of the charity must be applied for the purposes set out in the governing document and for no other purposes;
 - the trustees must act reasonably and prudently in all matters relating to the charity and must always bear in mind the interests of the charity. They should not let their personal views or prejudice affect their conduct as trustees;
 - trustees should exercise the same degree of care in dealing with the administration of their charity as a prudent businessman would exercise in managing his or her own affairs or those of somebody else for whom he or she was responsible, and
 - where trustees are required to make a decision which affects a personal interest of one of their members that person should not be present at any discussion or vote on the matter.

Liability

6. Trustees are jointly and severally liable to the charity for breaches of trust. They may incur personal liability for losses incurred if they:
- act outside the scope of the trust deed;
 - fall below the required standard of care;
 - make a personal profit from the trust assets;
7. Trustees will incur personal liabilities under contracts they enter into in the name of the charity. They are however, entitled to be reimbursed from the charity's funds for all liabilities and expenses properly incurred by them, provided this is authorized by the trustees in accordance with the trust deed.

Insurance and Indemnity

8. An indemnity can be given from the trust fund provided the trustee has acted properly and within their powers. Trustees may take out insurance to protect themselves against personal liability except criminal liability. Payment of the premiums must be authorized by the trust deed if they are to be met from charitable funds.

Unincorporated Associations

Legal Status

1. Most societies, clubs and similar organizations (other than companies, industrial societies and trusts), are unincorporated associations. This is an informal organisation which may arise where several people join together, with the intention of creating legal relations, to carry out a mutual purpose otherwise than for profit.
2. There is no statutory definition of an unincorporated association but it has been described by the court as 'an association of persons bound together by identifiable rules and having an identifiable membership'. Unlike a company it does not have a separate legal status distinct from its members.
3. Because unincorporated associations are not set up under a particular legislation, their structures may vary. However, the rules of an unincorporated association are usually found in its constitution, which sets out the roles and responsibilities of its members.

Duties

4. An unincorporated association will typically have an executive or management committee with its powers and composition defined by the constitution. Key decisions will usually be made by the members at general meetings. The day to day administration of an association is usually undertaken by the officers and members of the executive or management committee.
5. Broadly, executive or management committee members must act within the constitution and must take reasonable care in exercising their powers.
6. Where an unincorporated association is a registered charity the members of the executive or management committee may also be charity trustees. As such, their role and responsibilities will be determined not only by the association's constitution but also by the general law relating to trusts and charities, as set out Appendix D.

Observer Status

7. The Council may appoint a councilor to the executive or management committee of an unincorporated association as an observer. A councilor acting as an observer should avoid exceeding this role by becoming directly involved in the management of the association as they may be deemed to be an ordinary member for the purposes of determining liability.

Liabilities

8. Members of the management committee are generally liable, jointly and severally, for the acts of the organisation, but are entitled to an indemnity from the funds of the organisation if they have acted properly. If there are insufficient funds the members are personally liable for the shortfall.
9. Particular care should also be taken when entering into contracts on behalf of the association. If the individual lacks the authority to do so, they may find themselves personally liable for the performance of the contract.

Insurance

10. Where the councillor is appointed to represent the interests of the Council then the Councils' insurance will cover them so long as they do not willfully commit an offence.

Steering Groups, Joint Committees and Partnership Bodies, including Community Area Partnerships

1. The responsibilities of a councillor who is appointed as a member of any of these bodies will be determined by the terms of reference, constitution or partnership agreement under which they are established and governed.
2. It is necessary to ensure that the councillor's role on the body is clear, and, in particular, whether they are acting as a delegate or representative of the Council to further the interests of the Council, or whether they are expected to exercise independent judgment in the best interests of the body concerned.
3. Liability will depend on the nature and functions of the body and the constitution or agreement under which it is established. Insurance may be available to cover certain liability.



**QUESTIONNAIRE FOR MEMBERS ANTICIPATING NOMINATION TO REPRESENT THE COUNCIL
ON AN OUTSIDE BODY**

Name of outside body	
Description of role (e.g., committee member, director)	
What does the role involve?	
What experience and/ or interest in this subject makes you suitable for the role?	
What skills will you use in the role?	

How will you represent the council in the role?	
How will you add value to the outside body in your role?	
How would you report to the council on your activities in the role?	
What other outside bodies do you sit on?	
Will you be able to attend all (or nearly all) of the meetings that you will be expected to attend?	

The core competencies for members representing the council on outside bodies are:

- 1. Is generally available to attend meetings of the outside body*
- 2. Attends all meetings where circumstances permit*
- 3. Understands the purpose of the outside body*
- 4. Understands their role as the council's representative, including the need to represent the council as a whole*
- 5. Uses their role on the outside body to champion the interests of the people of Fylde, insofar as this is consistent with any other duty*
- 6. Regularly reports on their work with the outside body to (as appropriate) a scrutiny committee, the council or the cabinet*
- 7. Knows the procedures for dealing with conflicts between their own interests, those of the council and those of the outside body*
- 8. Has appropriate understanding of any regulatory framework that affects the outside body*
- 9. Informs the Council Leader if they are unable to continue to fulfil the competencies*

I consider that I fulfil (or will fulfil) the core competencies for representing the council on the outside body named above and would be willing to accept a nomination to do so.

Name

Date

Outside Bodies - Member Reporting Form

Elected Member		
Organisation Contact Details	Name	
	Address	
	Telephone number	
	Email	
	Website	
Objectives of Organisation		
Role and responsibility of the Council representative? (For example, Observer, Trustee, Director)		
What have you achieved through the relationship?		
How often does the organisation meet?		
How often have you attended meetings?		
What at key issues have arisen? (continue on separate sheet if required)		

Audit Committee



Date:	Thursday, 20 September 2012
Venue:	Town Hall, St. Annes
Committee members:	Councillor Brenda Ackers (Vice-Chairman) Councillors Ben Aitken, Christine Akeroyd, Leonard Davies, Kath Harper, H Henshaw, Linda Nulty, Louis Rigby
Other Councillors:	Karen Buckley (Portfolio Holder for Finance and Resources), Charlie Duffy
Officers:	Alan Oldfield, Paul Walker, Tracy Morrison, Paul O'Donoghue, Savile Sykes, Gary Sams, Tim Cutler (KPMG), Paul Rogers
Other Attendees:	One member of the Public was present

1. Declarations of interest

Members were reminded that any personal/prejudicial interests should be declared as required by the Council's Code of Conduct adopted in accordance with the Local Government Act 2000. No declarations were declared.

2. Confirmation of minutes

RESOLVED: To approve the minutes of the Audit Committee meeting held on 21 June 2012 as a correct record for signature by the Chairman.

3. Substitute members

There were no substitutions.

4. Annual Governance Statement

Tracy Morrison, Director of Resources, presented the Annual Governance Statement which had been prepared under the CIPFA/Solace Framework the Local code of corporate governance. She reminded members that the Annual Governance Statement was considered each year for approval and had been considered and approved at the June Audit committee meeting. The Council's auditors, KPMG had requested an amendment to strengthen the code which was that the role of the Chief Finance Officer accords with the governance requirements set out in the CIPFA Statement on the role of the Chief Finance

Officer. She referred the committee to the amendment which was set out in paragraph 2 on page 10 of the report.

Following discussion it was RESOLVED that the Annual Governance Statement, as amended, be approved for signature by the chairman.

5. Annual Statement of Accounts

Paul O'Donoghue, Chief Finance Officer, presented a report on the Annual Statement of Accounts for year ending 31 March 2012. He advised members that as Chief Finance Officer he was required to prepare that Statement of Accounts and ensure that they present a true and fair view of the financial position of the Authority. The Council had delegated authority to the Audit committee to approve the Accounts by 30 September 2012 and that was the purpose of the report. He drew the committee's attention to a significant change in 2011/12 regarding the treatment of accounting for heritage assets held by the Council and referred to paragraph 1.2 of the report. Other changes required for the first time this year were in respect of remuneration to senior officers and exit packages of Council officers who had left the employment of the Authority and also the way in which Revenue expenditure was to be recorded. These changes were set out in paragraph 1.3 of the report.

Mr. O'Donoghue referred to the Independent Auditors' report of the financial statements on page 21 of the report which was that in their opinion, having audited the accounts, the statements gave a true and fair view of the financial position of the authority as at 31 March 2012 and of the Authority's expenditure and income for the year then ended. Also that the statements had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

In referring to the various sections of the accounts, Mr. O'Donoghue referred to the explanatory forward on pages 24 to 34 of the report. He advised that the revenue position for 2011/12 was an in year surplus of resources of £1.1 million. He explained the transfer of funds from that surplus into earmarked reserves and into general fund balances which were shown on page 25 of the report. Page 27 of the report set out a high level summary of the capital expenditure for the year which totaled £2.895 million with the most significant items listed at the bottom of page 27. The financing of that capital expenditure was set out on the following page. The Treasury Management position was set out in Section 5 on page 28 which indicated the Council's borrowing requirement was £6.5 million for the year ended 31 March 2012, whilst actual borrowing at that date stood at £3.8million. The overview and review of the Council's financial position following outturn was indicated in section 6 on page 29. It referred to Medium Term Financial Strategy and updated members on some of the details within the strategy. Mr. O'Donoghue emphasized that the latest published financial forecast identifies that expenditure was estimated to exceed income by an average of £603,000 per annum over the next four financial years and that this position was not sustainable over the longer term. He made reference to the need to account for heritage assets, as mentioned earlier in the minute, and drew the committee's attention to the accounting policies in this regard as set out on pages 46, 47 and 48 of the report. He had been in discussion with KPMG, the Council's Auditors, regarding the revaluation of those assets and informed the Committee that a full revaluation of heritage assets was to take place during 2012/13. More detail in respect of officers' remuneration and exit packages were detailed on page 83 of the report.

With regard to a question regarding treasury management and interest rates, Mr. O'Donoghue reminded members that due to the Council having cash reserves during the

year, this enabled the Council to use that money to fund some expenditure thereby delaying the need to borrow and resulting in revenue savings.

Following detailed discussion it was RESOLVED to approve the Statement of Accounts for 2011/12 and submit them to Full Council accordingly.

6. Report to Those Charged with Governance (ISA 260) 2011/12

Tim Cutler, representing KPMG, presented a report which had been prepared by KPMG, which summarised

- i) The key issues identified during the audit of the Council's financial statements for the year ended 31 March 2012, and
- ii) KPMG's assessment of the Council's arrangements to secure value for money in its use of resources.

The report concluded, that having regard to the relevant criteria for principal authorities as published by the Audit Commission, the Council had secured economy, efficiency and effectiveness. It also provided an opinion to verify that the Council had complied with all legal and regulatory frameworks with respect to its accounting arrangements resulting in an unqualified opinion.

Mr Cutler made reference to the introduction on page 119 of the report which provided an overview of the work which KPMG carry out in accordance with the Audit Commission's Code of Practice. As well as a rigorous audit of the Council's financial statements, KPMG were required to provide a Value for Money conclusion in its use of resources. He took members through the various sections of the report. He reported that he would not be suggesting any material or immaterial audit adjustments and any other changes were presentational or in relation to disclosures.

Councillor Brenda Ackers, Vice-Chairman, thanked Mr Cutler and his team for their work.

It was RESOLVED

- 1. That the report is noted and KPMG be thanked for its report.
- 2. That the Audit Committee notes the work undertaken by the Council over the course of the last year resulting in an extremely positive audit opinion of the Council's effectiveness.

7. Guide/Criteria for Members Serving on Elected Bodies

Tracy Morrison, Director of Resources, presented a report which proposed a guidance /protocol for members serving on outside bodies. The committee was reminded that the scrutiny review of the Clifton Lytham Housing Association had made specific reference to the role of elected members on outside bodies. It had been previously endorsed by the Audit Committee that the development of such a protocol would assist in providing clarity on responsibilities.

Ms Morrison took members through the report and clarified the protocols and guidance which had been suggested together with core competencies for members serving on outside bodies. She also requested the committee to consider the core competencies for Ward councillors, Committee chairman, Cabinet members and Council Leader as shown on page 142 of the report. She emphasised that the core competencies were for members' guidance.

Councillor Ackers allowed Councillor Charlie Duffy to speak on the matter.

Councillor Duffy acknowledged that it was a good report with a few exceptions. He took the view that members should be competent to carry out an outside body appointment. He was also of the view that there should be something in the competencies which required that appointed members should be qualified to carry out the appointment effectively. He also suggested that point 2 on page 156 should apply to all bodies as well as Quasi Statutory bodies. He queried the guidance set out within the papers (paragraph 6, page 149) which set out that where when members were appointed as Directors of Limited Liability Companies that they had to act in the best interests of the Company and not the Council. Further clarity was required on this point by the Committee from the Council's Solicitor prior to formally making a recommendation to the Council on the adoption of the Protocol, or otherwise. Members felt that this could give rise to a conflict of interests and that elected members should have an over-riding responsibility to the Council. Councillor Duffy questioned that if responsibility legally rested elsewhere, why the Council would choose to be represented on such bodies.

It was RESOLVED to

1. Defer consideration of the Guidance/Protocol for Members Serving on Outside Bodies to enable further clarification on members' representation in the various areas referred to above to be submitted to the Audit Committee meeting on 14 November.
2. The other Core competencies developed by the Member Development Steering Group as detailed on page 142 of the report be commended to Council for approval.

8. Internal Audit Service

Tracy Morrison presented a report which advised the Committee of the final outcome of the negotiations for a shared internal audit service between Fylde and Blackpool Councils. The report explained why the proposal was no longer being pursued and provided an assurance about the ongoing service to be provided.

Ms Morrison took members through the background relating to the possibility of a shared Audit service with Blackpool Council and the factors which brought the officers to the conclusion that it would not be a viable proposition from a financial perspective.

Savile Sykes, Chief Internal Auditor, was confident that he and his team would continue to provide a good service.

It was RESOLVED to note the outcome of the negotiations with Blackpool Council for a shared internal audit service and to endorse the proposals for the ongoing in-house service.

9. Regulation of Investigatory Powers Act 2000: Authorisations

Tracy Morrison, Director of Resources, presented a report on the above. She explained that councillors are obliged to review the use of covert surveillance and covert human intelligence sources by the council at least quarterly.

Ms Morrison referred to the table in paragraph 6 on page 165. She drew the committee's attention to date on the second row which should be amended to read 'July - Sept 2012'. With reference to March - June quarter, she emphasised that the three surveillance authorisations were relating to the same operation. There were no authorisations in July to September quarter.

It was RESOLVED to note the information in the report.

10. Corporate Governance Improvement Plan

Tracy Morrison, Director of Resources, presented a report regarding the Corporate Governance Improvement Plan 2012/13. She reminded the committee that the Audit Committee was charged with adopting the Annual Governance Statement and monitoring the progress in fulfilling the Corporate Governance Improvement Plan. At the last meeting of the Committee in June the Annual Corporate Governance Statement had been approved and the Action Plan was presented to the committee as a result. The ten significant issues that had been identified from the June Statement with actions to strengthen the issues were attached to the report together with an agreed improvement plan. She advised that some actions had been completed, some were outstanding or were in progress.

Councillor Linda Nulty referred to equalities training and that there was no reference to Councillors being trained. Ms Morrison informed members that due to new legislation on the issue, training for officers had been delayed. She suggested to the committee that if it was the wish of the committee, equality training for members could be added to Members programme of training through the Member Development Steering Group and Learning Hours.

It was RESOLVED to approve the Corporate Governance Improvement Plan and an update on achievement of actions be presented to the January Audit committee meeting.

11. Sandwinning Operations

Gary Sams, Principal Estates Surveyor, presented a report regarding sandwinning operations. He reminded the committee that at its meeting on 22 September 2011 the Committee was presented with a report updating members on matters associated with the sandwinning operation. The Committee resolved to request that the possible removal of sand without payment to the Council is investigated, and the results reported back to the Committee in January.

At its meeting in January, the Committee was presented with a report informing it that vehicles filled with sand seen leaving the beach at Squires Gate were most likely from Greenwood's Transport which had a contract to remove sand from the Blackpool Light Craft Club. The committee resolved that:

- "1) The Committee notes the outcome of the investigation which is that there is no evidence that sand is being removed without payment to the Council.
- 2) The issue referred to in 1) above be monitored and that an update report be submitted to the September meeting of this Committee."

The purpose of the report was to address the second resolution and to inform the Committee that further monitoring had taken place and that there remained no evidence that sand was being removed without payment to the Council. He advised the committee that he had been to the site and had monitored and checked 20 vehicles and all had been weighed and ticketed.

After further debate it was RESOLVED to note the result of the investigation which is that there is no evidence that sand is being removed without payment to the Council.

12. Risk Action Plan 1 - Accommodation

Paul Walker, Director of Development Services, presented a report which summarised progress to date on the risk actions contained in Risk Action Plan 1 - Accommodation, as requested by the Audit Committee at its meeting on 21 June 2012.

The report linked principally to the Corporate Objective - "To meet the expectations of our customers".

Mr Walker emphasised that of the eight risk actions that should have been completed, three had been completed. Those that were completed were set out in paragraph 2.1 of the report and the outstanding items with completion dates were listed in the table in that paragraph. He referred to the sale of the three sites as reported in the table and advised members that delays in completion of the sale had arisen due to issues between the buyer and the Council. He informed the committee that the Accommodation Project working group monitored the situation with regard to the matters listed in the table on a regular basis.

It was RESOLVED that the report of the progress made on Risk Action Plans 1 - Accommodation be noted.

13. High/Medium Priority Actions 2011 - 12 (Update)

Savile Sykes, Chief Internal Auditor, presented a report which updated the committee on the high/medium priority actions implemented in 2011-12. At its meeting in June 2012, the Committee considered the Internal Audit Annual Report for 2011-12 in which it was reported that the percentage of high/medium priority actions implemented was 84% compared to the previous year's 93%. The Committee supported the Chairman's suggestion for him to meet with responsible managers for audit reviews where the implementation of agreed 'high/medium' priority actions was below the committee's target.

Mr Sykes referred to the table in paragraph 3 of the report, which contained details of seven reviews where the implementation rate was below the Committee's target of 95%. He reported that following meetings with the responsible managers progress had been made and table two in paragraph five reflected the current position. Nine further recommendations had been actioned and two of the reviews had been implemented in full. The overall implementation rate of high/medium agreed actions had increased from 84 per cent to 92 per cent, which was only slightly below last year's figure.

The overall implementation rate for low, medium and high agreed actions was at 91 per cent which was 1 per cent higher than the Committee's target for this category.

Mr Sykes advised that additional evidence had recently been received with regard to the trade waste audit, which would take the implementation rate for that review to 100 per cent and that further implementations had been promised for the development control, asset management and Mayoral Charity reviews, which would take the implementation rate to 100 per cent for those reviews as well.

It was RESOLVED to notes the revised position with regard to the 'high/medium' priority actions implemented by management arising from internal audit work in 2011-12.

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